



Arizona State Senate *Issue Brief*

November 27, 2006

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ARIZONA'S BUILDING RENEWAL FORMULA

INTRODUCTION

Building renewal refers to the budgeting mechanism by which a state attempts to preserve its capital assets. It involves the repair and reworking of a building, including the upgrading of systems that will result in maintaining and extending a building's expected useful life.

OVERVIEW

States have adopted varying approaches to funding building renewal. Pursuant to Laws 1986, Chapter 85, appropriations for building renewal in Arizona are based upon a formula approved by the Joint Committee on Capital Review. The formula is a modified version of the Sherman-Dergis formula developed at the University of Michigan. It takes into account the replacement value, age and life cycle of the building. The formula does not consider deferred maintenance resulting from less than 100 percent funding in prior years. The formula is as follows:

$$(\text{Replacement Value} \times .667) \times (\text{Age}/1275)$$

In Arizona, there are three building systems funded by the building renewal formula – the Arizona Department of Administration (ADOA) system, the Arizona Board of Regents (ABOR) system and the Arizona Department of Transportation (ADOT) system. Each system is funded by a different source. The ADOT system receives funding primarily through the State Highway Fund. The ABOR system is funded through the state General Fund. The ADOA system has been historically funded through a combination of the state General Fund and the Capital Outlay Stabilization Fund (COSF), which consists of rent payments on 30 state-owned buildings.

Because building renewal funding for the ADOA and ABOR systems is heavily dependent upon state General Fund support, these systems must compete with other budget issues for funding during each budget cycle. As such, these systems rarely receive 100 percent funding.

During the 2000 interim, the Joint Legislative Study Committee on the State Building Renewal Formula and Process (Laws 2000, Chapter 228) met to review the adequacy of the

funding formula and process. The Committee found that the formula is adequate; but, because the state had not fully funded the formula in recent years, deferred maintenance costs had risen to approximately \$78 million for the ADOA system and \$220 million for the ABOR system. The Committee recommended that the Legislature prioritize full funding during the budget process and use other funds for building renewal when possible, such as Correction Fund monies for prison building renewal.

One issue raised during the deliberations of the Committee, but left unresolved, dealt with the sources and uses of COSF monies. COSF consists of rents paid from 30 buildings within the ADOA system; however, there are 2,900 facilities within the system that are supported by building renewal monies. The result was that COSF could only support 26 percent of the ADOA building renewal; the remaining 74 percent must then be supported by the state General Fund (unless an alternative funding source can be identified). The COSF is further strained because, statutorily, it is used to fund utilities, preventative maintenance and a portion of ADOA's operating budget; and in recent years COSF monies have been appropriated for ADOA special capital projects.

The Committee discussed different methods for increasing COSF revenues, most notably, adding other buildings and facilities under the ADOA system to the list of those already paying rent into COSF. The Committee ultimately did not adopt this as a recommendation for two primary reasons. The first reason is that the ADOA system accounts for less than one-third of state General Fund supported building renewal. Two-thirds of the cost is attributable to the ABOR system, and modifying COSF would not address this cost. The potential for assessing rent on ABOR buildings for deposit into a separate building renewal fund was raised at the Committee hearings but was not supported by representatives from the universities.

The second reason raised by Committee members for not assessing rents on more buildings is that the overwhelming majority of the new assessments would ultimately be supported by the state General Fund. While the Committee acknowledged that a portion of new

assessments could be absorbed by the affected agencies, some could not. Pressure would be felt during the budget process to augment operating budgets to pay for the new rents.

During the 2001 regular legislative session, the Legislature considered the Committee's recommendations, but no action was taken. The chart below identifies amounts and percentages of the formula funded since FY 1991-1992:

BUILDING RENEWAL FUNDING HISTORY

(\$ in millions)

FY	ADOA		ABOR		ADOT	
	Amount (in millions)	% of Formula Funded	Amount (in millions)	% of Formula Funded	Amount (in millions)	% of Formula Funded
1992	0.8	12	1.6	10	1	100
1993	2.2	31	5.5	31	1	100
1994	3.1	41	3.1	17	1	100
1995	5.1	58	12.4	58	1.1	100
1996	8.2	90	19.2	90	1.2	70
1997	4.9	50	11.5	50	2.1	100
1998	6.2	50	14.8	50	0.7	50
1999	13.6	100	32	100	2.1	100
2000	3.4	23	8.1	23	2.3	100
2001	3.7	23	8.8	23	2.5	100
2002	6.5	35	0	0	1.6	58
2003	3.1	15	0	0	1.6	58
2004	3.5	19	0	0	1.6	50
2005	3.5	18	0	0	2.8	85
2006	3.4	15	0	0	3.7	100
2007	7.2	28	20	28	3.7	100
TOT.	\$78.40		\$137.00		\$30.00	
AVG.		38		30		86

ADDITIONAL RESOURCES

- Joint Legislative Budget Committee
www.azleg.state.az.us/jlbc.htm
- Annual Appropriations Report, Joint Legislative Budget Committee
- Joint Legislative Study Committee on the State Building Renewal Formula and Process Final Report, 2000